

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

with

INDEPENDENT AUDITORS' REPORT THEREON

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rainbow Services, Ltd.

We have audited the accompanying statement of financial position of Rainbow Services, Ltd. (a non-profit organization) (the "Organization") as of June 30, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rainbow Services, Ltd. as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KMJ Corbin & Company LLP
KMJ | Corbin & Company LLP

Irvine, California
November 14, 2008

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

STATEMENT OF FINANCIAL POSITION

ASSETS	<u>June 30, 2008</u>
Current assets:	
Cash and cash equivalents	\$ 695,271
Contract receivables	226,452
Other current assets	<u>44,084</u>
Total current assets	965,807
 Property and equipment, net	 <u>3,903,282</u>
	 <u>\$ 4,869,089</u>
 LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	\$ 16,404
Accrued payroll and payroll taxes	188,644
Deferred revenue	264,577
Deposits	1,352
Current portion of notes payable	<u>156,000</u>
Total current liabilities	626,977
 Notes payable, net of current portion	 <u>2,866,555</u>
 Total liabilities	 3,493,532
 Commitments and contingencies	
 Net assets:	
Unrestricted	 <u>1,375,557</u>
	 <u>\$ 4,869,089</u>

See accompanying notes to financial statements

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

STATEMENT OF ACTIVITIES

	<u>June 30, 2008</u>
Revenue and support:	
Government grants	\$ 1,454,541
Contributions	172,395
Special events, net	62,730
Rental income	14,148
Contributions – donated goods and services	274,573
Foundations	242,127
Interest income	12,214
Gain on forgiveness of notes payable (Note 3)	<u>146,408</u>
Total revenue and support	<u>2,379,136</u>
Expenses:	
Program services	1,883,895
Fundraising	190,018
Supporting services	<u>261,391</u>
Total expenses	<u>2,335,304</u>
Change in net assets	43,832
Net assets, beginning of period	<u>1,331,725</u>
Net assets, end of period	<u>\$ 1,375,557</u>

See accompanying notes to financial statements

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

STATEMENT OF FUNCTIONAL EXPENSES

	For The Year Ended June 30, 2008			
	Program Services	Fundraising	Supporting Services	Total
Advertising	\$ -	\$ -	\$ 1,490	\$ 1,490
Building maintenance	17,666	-	3,917	21,583
Clinical supervision	15,250	-	-	15,250
Consultant	2,489	-	941	3,430
Depreciation and amortization	103,777	-	9,268	113,045
Equipment lease and maintenance	9,882	-	8,480	18,362
Loan fees	-	-	6,611	6,611
In-kind supplies	190,445	44,707	-	235,152
In-kind volunteer hours	15,256	135	24,030	39,421
Insurance	47,907	-	7,130	55,037
Interest	-	-	27,011	27,011
Membership fees	180	320	2,650	3,150
Miscellaneous	1,384	-	855	2,239
Postage	2,085	3,174	795	6,054
Printing	2,344	8,943	2,759	14,046
Professional fees	66,441	-	6,405	72,846
Property tax	2,440	-	852	3,292
Salaries and benefits	1,264,470	129,788	123,656	1,517,914
Supplies	69,169	2,927	21,083	93,179
Telephone	11,611	-	923	12,534
Transportation	8,539	24	11,500	20,063
Utilities	52,560	-	1,035	53,595
	<u>\$ 1,883,895</u>	<u>\$ 190,018</u>	<u>\$ 261,391</u>	<u>\$ 2,335,304</u>

See accompanying notes to financial statements

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

STATEMENT OF CASH FLOWS

	<u>For The Year Ended June 30, 2008</u>
Cash flows from operating activities:	
Change in net assets	\$ 43,832
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	113,045
Gain on forgiveness of notes payable	(146,408)
Changes in operating assets and liabilities:	
Contract receivables	44,703
Other current assets	(29,414)
Accounts payable and accrued expenses	37,568
Deferred revenue	55,465
Deposits	<u>(348)</u>
Net cash provided by operating activities	118,443
Cash flows used in investing activities:	
Purchase of property and equipment	(27,755)
Cash flows used in financing activities:	
Principal payments on notes payable	<u>(4,459)</u>
Net increase in cash and cash equivalents	86,229
Cash and cash equivalents at beginning of year	<u>609,042</u>
Cash and cash equivalents at end of year	\$ <u>695,271</u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	\$ <u>27,011</u>

See accompanying notes to financial statements

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rainbow Services, Ltd. (the “Organization”) was established and incorporated on June 14, 1983. The Organization is a non-profit corporation which provides emergency shelter and other services for victims of domestic violence. The Organization seeks to end the cycle of family violence.

The Organization has two shelters, a 30-day emergency shelter and a transitional shelter where the victim and their children may remain for up to one year.

The Organization provides a 24-hour English/Spanish hot line which responds to approximately 400 calls per month.

The Organization provides counseling, case management, legal advocacy, parenting classes, life-skills classes, and a Children’s Enrichment Program.

The Children’s Enrichment Program is designed to help children recover from family violence during a critical stage of development in their lives and to help families stabilize. The program promotes healthy growth and development, non-violent social skills and positive learning experiences in a safe, supportive setting.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. These assets are available to support the Organization’s activities and operations at the discretion of the Board of Directors.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the donor, the Organization and/or the passage of time. The Organization had no temporarily restricted net assets as of June 30, 2008.

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the income or gains earned on related investments for general (unrestricted) or specific purposes (temporarily restricted). The Organization had no permanently restricted net assets as of June 30, 2008.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Funding

The Organization receives funding through federal, state and municipal contracts or grants, foundation grants and fund raising.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Significant estimates made by management include, but are not limited to, the adequacy of the allowance for losses on uncollectible contracts receivable and the recoverability of long-lived assets through future operations.

Contributions

Contributions are recognized at fair value when the donor makes an unconditional promise to give to the Organization. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. If a donor imposes a specific restriction on the use of funds, it is classified as temporarily restricted net assets.

RAINBOW SERVICES, LTD.
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NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Contributed Goods and Services

Contributions of goods and services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of goods and services are recorded at fair value in the period received.

During 2008, contributed goods received had an estimated value of \$235,152. In addition, the value of contributed services meeting the requirements for recognition in the financial statements had an estimated value of \$39,421. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization that do not meet the requirements to be recognized for financial statement purposes. These amounts have not been reflected in the accompanying financial statements.

Cash and Cash Equivalents

The Organization considers cash on hand, in banks and other short-term securities with existing maturities of three months or less to be cash and cash equivalents.

From time to time, the Organization maintains balances in various operating accounts. The total cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000 per commercial bank. As of June 30, 2008, the Organization had deposits of \$608,585 in excess of FDIC limits.

Property and Equipment

Property and equipment are recorded at cost except for donated equipment, which is stated at fair market value at date of receipt. The Organization follows the practice of capitalizing all expenditures for equipment in excess of \$500. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years. Maintenance and repairs are charged to operations when incurred. Expenditures for equipment over \$500 are capitalized. When property and equipment are sold or otherwise retired, the asset accounts and related accumulated depreciation accounts are removed, and any gain or loss is included in the statement of activities.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

Management of the Organization assesses the recoverability of property and equipment whenever a triggering event occurs. In the event that there is a decline in value, the Organization performs an analysis to determine if the decline in value may not be recoverable. Management has determined that no unrecoverable declines in the market values of property and equipment exist at June 30, 2008.

Income Taxes

The Organization is a public charity that has obtained an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California state income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for federal or state income taxes. The Organization is subject, however, to Federal and California income taxes on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the year ended June 30, 2008, the Organization had no unrelated business income.

Allocated Expenses

The direct costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain indirect costs have been allocated among the programs and supporting services benefited based upon estimated benefit received.

Risks and Uncertainties

Certain of the Organization's services are governed by grant agreements with governmental agencies. All such grant agreements involving the Organization are for fixed terms and expire on an annual basis. There can be no assurances that the Organization will be able to obtain future grant agreements as deemed necessary by management. The loss of some of the current grants or the inability to obtain future grants could have an adverse effect on the Organization's financial position and results of activities. Failure of the Organization to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions and civil penalties.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The Organization's services are funded primarily by two government agencies, the U.S. Department of Health and Human Services and the U.S. Department of Housing and Urban

RAINBOW SERVICES, LTD.
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NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

Development, which accounted for approximately 94% of total government grant income. The Organization has contracts receivable from a total of three government agencies, which accounted for 64% of the Organization's outstanding contracts receivable balance at June 30, 2008. As such, the Organization is required to comply with OMB Circular A-133 and other federal audit requirements. Failure of the Organization to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions, and civil penalties, and could have an adverse effect on the Organization's financial position and operations. Management believes that they will be able to continue obtaining appropriate agreements to fund future operations based on their historical ability to obtain new grant agreements and based on their relationships.

Contracts Receivable

Contract receivables represent billings for services rendered prior to June 30, 2008 on contracts existing at year end. It is the policy of management to review the outstanding contracts receivable at year end, as well as the bad debt write offs experienced in the past, and establish an allowance for uncollectible amounts. The Organization believes that contract receivables are fully collectible and therefore has no allowance for uncollectible accounts as of June 30, 2008.

These receivables are from government agencies and are subject to governmental audit. Management believes that no material adjustments will result from subsequent audits, if any, by governmental agencies.

Deferred Revenue

Deferred revenue represents money received prior to being expended within specific contractual requirements.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30, 2008:

Furniture and fixtures	\$	65,958
Automobiles		23,035

RAINBOW SERVICES, LTD.
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NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

Building	4,005,336
Land	<u>447,082</u>
	4,541,411
Less accumulated depreciation	<u>(638,129)</u>
	<u>\$ 3,903,282</u>

NOTE 3 – NOTES PAYABLE

Notes payable at June 30, 2008 are summarized as follows:

Note payable to Citibank, 7.23% interest rate, payable in monthly installments of principal and interest of \$3,027 through October 2027. The note payable is secured by the 7th Street property. \$ 374,603

Note payable to the Los Angeles Housing Department (“LAHD”), bearing no interest, payable in monthly installments of \$5,618 through 2021, subject to forgiveness if the property is being utilized as a shelter, as specified within the LAHD’s Affordable Housing program regulations. In 2008, LAHD forgave \$67,411 of the loan. 893,195

Note payable to the LAHD, bearing no interest, payable in monthly installments of \$6,583 through 2024, subject to forgiveness if the property is being utilized as a shelter, as specified within the LAHD’s Affordable Housing program regulations. In 2008, LAHD forgave \$78,997 of the loan. 1,263,965

NOTE 3 – NOTES PAYABLE, continued

Note payable to the State of California Department of Housing and Community Development, bearing interest at 3% per annum, secured by a deed of trust on real property. Each year payment is deferred if the property is maintained as an emergency shelter or transitional shelter. The loan will be forgiven at the end of the loan term. The Organization

RAINBOW SERVICES, LTD.
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NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

has the intent and ability to ensure the property is used for those purposes. Therefore no interest on this note has been recorded in the accompanying financial statements. The note is due in October 2012. If the property securing this debt continues to be used for the specified purposes until the due date, the note will be forgiven entirely.

	<u>490,792</u>
Total notes payable	3,022,555
Less current portion	<u>(156,000)</u>
Notes payable, net of current portion	\$ <u>2,866,555</u>

At June 30, 2008, required annual principal payments on notes payable are as follows:

<u>Years Ending June 30,</u>	
2009	\$ 156,000
2010	157,000
2011	157,000
2012	158,000
2013	649,792
Thereafter	<u>1,744,763</u>
	\$ <u>3,022,555</u>

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

NOTES TO FINANCIAL STATEMENTS

For The Year Ended June 30, 2008

NOTE 4 – COMMITMENTS AND CONTINGENCIES

Leases

The Organization maintains several operating leases for office equipment, with original terms ranging from three to five years. Lease expense totaled \$16,695 for the year ended June 30, 2008.

Future annual minimum payments under non-cancelable operating leases are as follows:

<u>Years Ending June 30,</u>	
2009	\$ 13,229
2010	12,672
2011	12,672
2012	<u>10,560</u>
	<u>\$ 49,133</u>

Indemnities and Guarantees

The Organization has made certain indemnities and guarantees, under which it may be required to make payments in relation to certain transactions. The Organization indemnifies its directors, officers, employees and agents to the maximum extent permitted under the laws of the State of California. The Organization has indemnified a lender for certain damages that may occur to the Organization's assets. The duration of the guarantees and indemnities varies, and in many cases is indefinite. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Organization could be obligated to make. As of the report date, the Organization has not been obligated to make any payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying statement of financial position.

NOTE 5 – SPECIAL EVENTS

Income and expenses from special events are as follows:

Revenue	\$ 128,518
Expenses	<u>(65,788)</u>
Net income	<u>\$ 62,730</u>

RAINBOW SERVICES, LTD.
(A Non-Profit Organization)

SUPPLEMENTAL SCHEDULES REQUIRED
BY OMB CIRCULAR A-133

For The Year Ended June 30, 2008

Rainbow Services, Ltd.
(A Non-Profit Organization)

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Rainbow Services, Ltd.

We have audited the financial statements of Rainbow Services, Ltd. (the "Organization") as of and for the year ended June 30, 2008, and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters, which we have reported to management of the Organization in a separate letter dated November 14, 2008.

This report is intended solely for the information and use of the Board of Directors, audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KMJ Corbin & Company LLP
KMJ | Corbin & Company LLP

Irvine, California
November 14, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Rainbow Services, Ltd.

Compliance

We have audited the compliance of Rainbow Services, Ltd. (the "Organization") with the types of compliance requirements described in the United States Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, Rainbow Services, Ltd. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures and Federal Awards

We have audited the basic financial statements of Rainbow Services, Ltd. as of and for the year ended June 30, 2008, and have issued our report thereon dated November 14, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Directors, audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KMJ Corbin & Company LLP

KMJ | Corbin & Company LLP

Irvine, California
November 14, 2008

Rainbow Services, Ltd.
(A Non-Profit Organization)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Awards Expenditures
<u>Department of Agriculture:</u>		
Pass-through the State of California Department of Education		
Child and Adult Care Food Program	10.558	\$ 19,013
<u>U.S. Department of Health and Human Services:</u>		
Pass-through the State of California Office of Emergency Services:		
Spanish/English Domestic Violence Service	16.575	200,072
Pass-through the County of Los Angeles:		
Community Service Block Grant	93.569	103,429
Family Preservation and Support Service	93.556	73,800
Welfare to Work Program	93.592	180,000
Maternal and Child Health Services	93.994	221,329*
<u>U.S. Department of Housing and Urban Development:</u>		
Pass-through the City of Los Angeles:		
Community Development Block Grant	14.218	318,603
Housing Counseling Assistance	14.169	273,089*
<u>Department of Justice:</u>		
Office of Justice Programs	16.588	55,202
<u>Federal Emergency Management Agency:</u>		
Shelter Housing Funds	97.024	2,743
Emergency Food and Shelter	97.024	<u>7,261</u>
Total expenditures of federal awards		<u>\$ 1,454,541</u>

* Major program

See accompanying Notes to Schedule of Expenditures of Federal Awards

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2008

NOTE 1 - GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of Rainbow Services, Ltd. (the "Organization") for the year ended June 30, 2008. Federal awards received directly from federal agencies as well as federal awards passed through local agencies are included in the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting which is described in the notes to the Organization's financial statements.

NOTE 3 - RELATIONSHIP TO FEDERAL AWARDS REPORTS

Amounts reported in the accompanying schedule of expenditures of federal award agree with the amounts reported in the related federal financial reports for all major federal programs.

Rainbow Services, Ltd.
(A Non-Profit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unqualified opinion on the financial statements of Rainbow Services, Ltd.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Rainbow Services, Ltd. were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The independent auditors' report on compliance for the major federal award programs for Rainbow Services, Ltd. expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for Rainbow Services, Ltd. that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include pass-through programs under U.S. Department of Health and Human Services and U.S. Department of Housing and Urban Development as follows:

Maternal and Child Health Services	93.994
Housing Counseling Assistance	14.169

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Rainbow Services, Ltd. qualified as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

Rainbow Services, Ltd.
(A Non-Profit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2008

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None.

D. SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.